

Message Text

CONFIDENTIAL

PAGE 01 CAIRO 05932 152111Z

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C O N F I D E N T I A L CAIRO 5932

EXDIS

E.O. 11652: GDS

TAGS: EAID EG

SUBJECT:EMERGENCY ASSISTANCE FOR EGYPT

REF: CAIRO 5927

1. TEMPLETON AND DEMONGEOT MET WITH ABU ISMAIL TONIGHT FOR ABOUT ONE AND HALF HOURS. FOLLOWING SUMMARIZES TALK.

2. DISCUSSION WITH ABU ISMAIL REVEALED HIS COMPLETE CONFUSION WITH LAST TWO SENTENCES OF PARAGRAPH 3 OF LETTER. FOLLOWING OUR DISCUSSION OF DERIVATION OF FIGURES, ISMAIL AGREED FULLY WITH FORMULATION AS ORIGINALLY STATED AND RESULTING DEFICIT OF LE 730 MILLION.

3. HOWEVER, AS WE SUSPECTED, ISMAIL INSISTS
A) THAT NEITHER THE CAPITAL GOODS NOR INTER-MEDIATE AND CONSUMER GOODS CAN BE REDUCED AS PROJECTED IN PARAGRAPH 4 ALTHOUGH HE NOW WILLING TO ACCEPT STATEMENT RE DEBT SERVICE LIMITATION. THIS WOULD HAVE EFFECT OF REDUCING LE 730 MILLION DEFICIT BY AT LEAST LE 192.

4. TO RESULTING DEFICIT, ISMAIL INSISTED THAT TWO FACTORS SHOULD BE ADDED: A) XVRE FINANCING OF LE 700 MILLION IN SHORT-TERM BANKING FACILITIES AND B) LE 416 MILLION IN PROJECTED DEBT SERVICING FOR CY 1976 WHICH ISMAIL AT FIRST CLAIMED WOULD FALL DUE IN EARLY CY 1976.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 CAIRO 05932 152111Z

5. WHEN WE POINTED OUT THAT THE NEW TOTAL WOULD EXCEED HIS "MAGIC" FIGURE OF LE 1.4 MILLION BY SOME LE 254 MILLION, ISMAIL INDICATED THAT BANKING FACILITIES WOULD NEED NOT BE BROUGHT BACK TO ZERO, BUT THAT UP TO LE 200 MILLION COULD BE CARRIED OVER INTO CY 1976. WE ALSO QUESTIONED WHETHER ALL OF LE 416 DEBT SERVICING PROJECTED FOR CY 1976 WOULD FALL DUE IN FIRST HALF OF YEAR. ISMAIL INDICATED AGREEMENT THAT SOME PORTION COULD BE HELD OVER TO SECOND HALF OF YEAR. HOWEVER, IT IS CLEAR THAT ISMAIL WILL INSIST THAT TOTAL REQUIREMENTS MUST BE STATED AS AT LEAST LE 1.4 MILLION.

6. WE POINTED OUT NEED TO HAVE CLEAR AND CONSISTENT EXPLANATION OF WHATEVER FIGURE IS USED AGREED TO GET TOGETHER AGAIN TOMORROW TO SETTLE ON ACTUAL BREAKDOWN OF TOTAL FIGURE.

7. WHEN WE SUGGESTED THAT FIGURE MUST BE KEPT WITHIN REALM OF REALISTIC POSSIBILITY FOR ASSISTANCE, ISMAIL INDICATED THAT A) HIS UNDERSTANDING OF OUTCOME OF SALZBURG TALKS WAS THAT US CAMPAIGN WOULD HAVE TARGET OF DOLLARS 1.5 MILLION AND THAT B) GOE WOULD UNDERTAKE TO RAISE BALANCE THROUGH SEPARATE APPROACHES TO ARAB STATES. IN ENSUING DISCUSSION, ISMAIL REVEALED THAT HE INTERPRETED TARGET OF \$1.5 MILLION TO EXTEND THROUGH FIRST HALF OF CY 1976. HE VOLUNTEERED FOLLOWING BREAKDOWN:

USA	\$ 620
GERMANY	200
JAPAN	200
IRAN	250
SAUDI ARABIA	\$ 250

	\$1,520

8. IN RESPONSE TO OUR QUESTION, ISMAIL INDICATED THAT THE \$250 FROM SAUDI ARABIA WAS ADDITIONAL TO THE \$600 MILLION RECENTLY PROMISED

WHICH, WITH THE \$500 MILLION KUWAIT ASSISTANCE, WOULD
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 CAIRO 05932 152111Z

BE ADDRESSED TO THE BALANCE OF THE LE 1.4 MILLION (\$3.5 BILLION).

9. WE POINTED OUT TO ISMAIL THAT ALL OF CONTEMPLATED \$620 MILLION FROM US WOULD NOT REPEAT NOT HELP WITH HIS BALANCE OF PAYMENT PROBLEM SINCE AT LEAST \$250 MILLION WOULD BE DIRECTED TOWARDS PROJECTS. ISMAIL WAVED HIS HAND AND SAID THAT EGYPT NEEDED PROJECT

AID AS WELL.

10. AT TOMORROW'S MEETING, WE WILL ATTEMPT
DRAFT NEW LETTER WHICH LAYS OUT CLEARLY THE EGYPTIAN
POSITION AND THE MAKE-UP OF THE TOTAL REQUIREMENT.
WHILE THIS TOTAL COULD WELL BE OVERLY AMBITIOUS, A
DETAILED LETTER SHOULD GIVE EACH OF THE POTENTIAL
DONORS A BETTER UNDERSTANDING OF THE PROBLEM AND A
BASIS FOR THEIR INDIVIDUAL RESPONSES. ASSUMING
TENTATIVE DRAFT CAN BE PREPARED, WE WILL SUBMIT
IT TO DEPARTMENT BEFORE IT IS ISSUED AS AN AGREED-
UPON LETTER.
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